

State Controller's Office

State of Colorado Fiscal Highlights

For the Fiscal Year Ended June 30, 2003

This report provides an overview of the financial condition, and changes in financial condition of the State of Colorado in an easy-to-understand format. This report is unaudited but much of the information contained herein is from audited or other published reports deemed to be reliable. You can get additional detailed information from the State of Colorado's [Comprehensive Annual Financial Report](#) located on this website.

Financial Condition

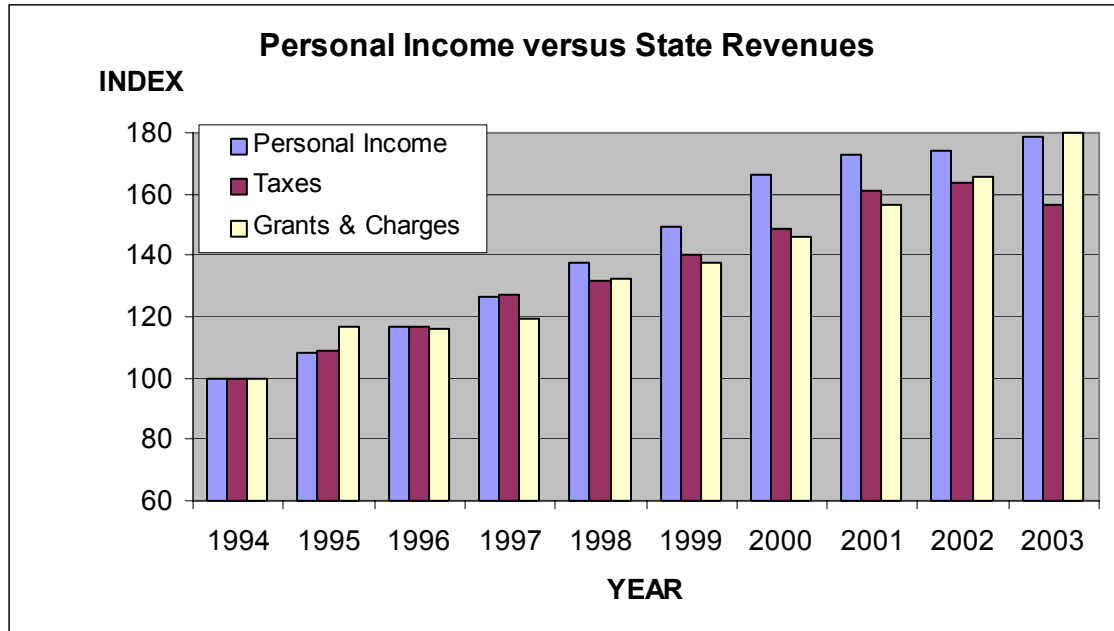
The State's financial condition can be measured in a simplified way by examining the change in its assets. Current assets are those that will be converted into cash in less than one year and current liabilities are those that will have to be paid from that cash. The current ratio is a measure of the State's ability to meet its obligations as they come due within the next fiscal year. The higher the current ratio, the greater the financial capacity to meet obligations these obligations.

Dollar amounts in thousands	FISCAL YEAR	
	2003	2002
Current Assets	\$ 3,308,011	\$ 4,286,814
Current Liabilities	(2,129,082)	(1,930,848)
Working Capital	\$ 1,178,929	\$ 2,355,966
Current Ratio	1.55	2.22
Total Assets	\$22,556,659	\$22,376,502
Total Liabilities	(5,916,078)	(5,144,130)
Net Assets	\$16,640,581	\$17,232,372
Change In Net Assets	\$ (591,791)	\$ 155,478
Restricted Net Assets	\$15,557,189	\$15,809,536
Unrestricted Net Assets	1,083,392	1,422,836
Net Assets	\$16,640,581	\$17,232,372

The Change in Net Assets for a government is similar to the Net Income After Taxes reported by a business in its financial statements. It is a short-term (one year) measure of change in financial condition and should be considered along with other information in determining the overall financial health of the State.

Although the total assets are substantially greater than the total liabilities, many assets are restricted as they are capital assets like prisons or roads, or they may be restricted by covenants that established them like the assets of the unemployment fund which is restricted to pay unemployment benefits. The unrestricted assets are those assets that the state can expend on its choice of programs.

Total Revenues versus Personal Income



In the graph above personal income in the state was compared to State tax revenues and all other state revenues. Calendar year 1994 was used as the base year for personal income and Fiscal Year 1994 was the base year for taxes and other state revenues. In the early years state tax revenues kept pace with personal income, but as the effects of TABOR (see TABOR later in this report) and cuts in state tax rates took hold then tax revenue began to fall vis a vis personal income. However, in Fiscal Years 2002 and 2003, fees, tuition, and other charges began to rise compared to personal income as the state courts have had to raise fees, state institutions of higher education have raised tuition rates, and Federal grants have increased.

General Purpose Revenues

General purpose revenues of the State are accounted for in the General Fund and these primarily include income, sales, and other taxes. General purpose means that the revenues are not restricted to fund specific programs, but are appropriated by the General Assembly at their discretion.

Dollar Amounts in Millions	Fiscal Year			
	2003	2002	2001	1999
Income Tax				
Individual	\$ 2,945	\$ 3,086	\$ 3,867	\$ 3,718
Less: TABOR Refund	-	-	(209)	(192)
Corporate	214	165	316	289
Net Income Tax	3,159	3,251	3,974	3,815
Sales, Use, & Excise Taxes	1,915	1,962	1,809	1,775
Less: TABOR Refund	-		(719)	(750)
Net Sales, Use, & Excise Taxes	1,915	1,962	1,090	1,025
Estate Tax	53	73	83	60
Insurance Tax	171	155	142	129
Other Taxes	38	34	31	29
Other Revenues	141	97	108	116
Total General Revenues	\$ 5,477	\$ 5,572	\$ 5,428	\$ 5,174
Percent Change Over Previous Year	-1.7%	2.7%	4.9%	4.7%

Annual Change in Expenditures by Function

The State's expenditures are grouped into various functions for financial reporting purposes. Education, including state support for the institutions of higher education is the largest single state expenditure. The expenditures in the following table are for expenditures from all sources of revenue including taxes, fees, bond proceeds, and Federal grants.

	FISCAL YEAR		Annual Change
	2003	2002	
General Government	263,180	\$ 233,300	11.4%
Business, Community, and Consumer Affairs	1,662,923	1,412,223	15.1%
Education	6,290,792	5,954,037	5.4%
Health and Rehabilitation	474,248	469,889	0.9%
Justice	966,237	952,059	1.5%
Natural Resources	102,568	102,381	0.2%
Social Assistance	2,827,778	2,605,738	7.9%
Transportation	888,142	748,541	15.7%
Payments to Other Governments	1,687,006	1,596,066	5.4%
Interest on Debt	16,219	16,750	-3.3%
Total	\$ 15,179,093	\$ 14,090,984	7.2%

Expenditures by department as a percentage of total general purpose revenues expended is shown in the following table:

Department	Fiscal Year			
	2003	2002	2001	1999
Education	40.1%	39.7%	37.3%	38.4%
Health Care Policy & Financing	19.6	18.8	17.9	17.9
Higher Education	11.9	12.9	13.0	13.5
Human Services	9.6	9.8	9.6	9.6
Corrections	8.3	7.8	7.3	7.2
Judicial	3.7	3.8	3.6	3.7
Revenue	1.2	1.2	1.4	1.3
All Others	5.6	6.0	9.9	8.4
	100.0%	100.0%	100.0%	100.0%

K-12 and Higher Education have consistently made up over 60 percent of the State's expenditures of general purpose revenues. In recent years, as prison population and mandated costs have risen in K-12 education and Medicaid, the State has had to curtail its contribution to its public colleges and universities and eliminate the majority of its capital construction projects. The rise in state expenditures on K-12 education is driven by two constitutional amendments, commonly referred to as the Gallagher Amendment and Amendment 23. See the sections on each for a further understanding of how they effect State expenditures.

GALLAGHER AMENDMENT

In 1982 the voters of Colorado approved an amendment to the Colorado Constitution commonly called the Gallagher Amendment (Article X, Sec. 3(1)(b) of the constitution). Implementation of this provision has resulted in more than a 50 percent cut since 1982 in the rate at which residential property is valued and taxed.

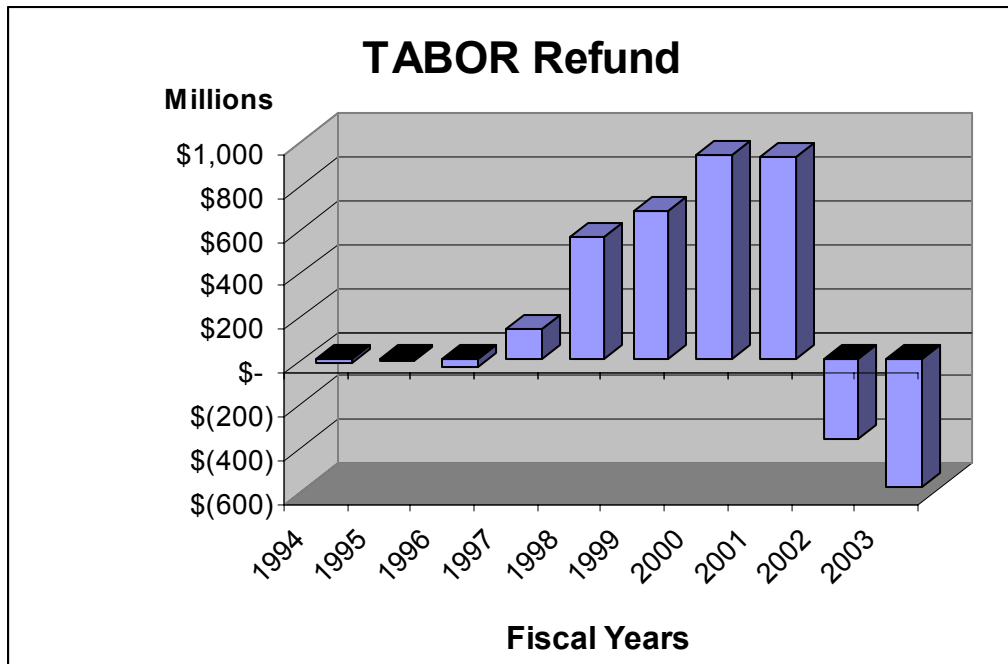
The actual value of taxable properties in Colorado is re-assessed every odd-numbered year, so that the values, which are taxed, are reasonably current. The Gallagher Amendment requires that during years when re-assessments occur, the assessment rate for residential property be adjusted so that the total statewide assessed value of residential property be maintained at the same ratio to non-residential property after adjustments are made for new construction. The intent of this provision was to stabilize residential real property's share of the property tax base.

In 1983, when it became effective, the Gallagher amendment reduced the residential assessment rate to 21 percent of actual value, requiring a 29 percent rate for all other classes. These rates resulted in approximately 45 percent of all property taxes in the state being paid by residential property, while the remainder, about 55 percent, was generated by non-residential property.

The effect of this was felt immediately as the value of residential property increased during the 1990s relative to all other classes of real property. By 1997 the actual value of residential property had increased to 73 percent of all property. In order to maintain the assessed value at the 45/55 ratio, the assessment rate for residential real property had to be lowered each biennial until it reached 9.15 percent of actual value in 2002.

TABOR

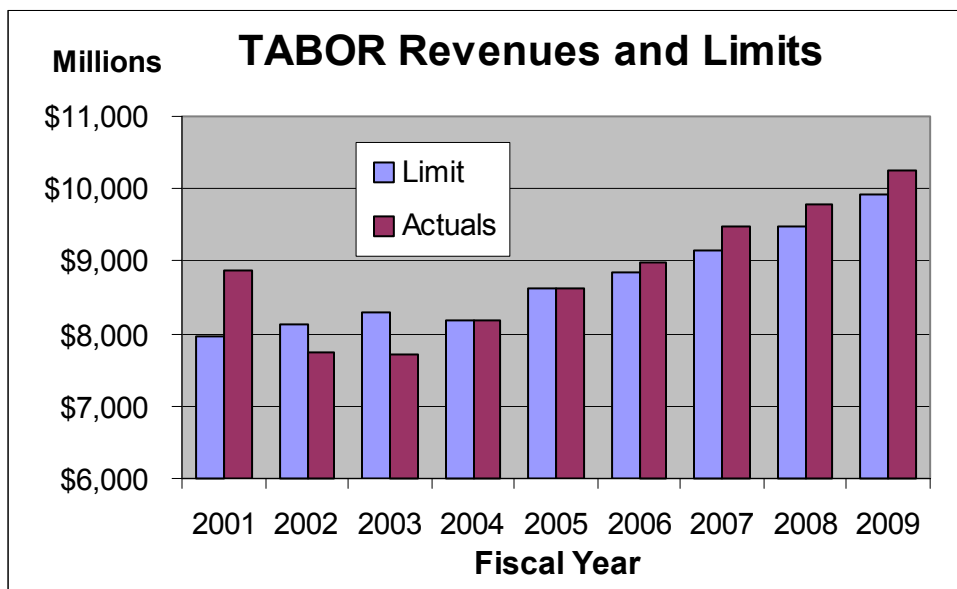
The voters passed the TABOR amendment to the Colorado Constitution in November 1992. The amendment removed the power of the General Assembly to raise taxes except in an emergency, and limited how much of the tax and fee revenues the State could keep in any given fiscal year. The limitation in Fiscal Year 1994 was the Fiscal Year 1993 revenues not exempt from TABOR multiplied by the sum of inflation and population growth as stated as a percentage.



After that the limitation was the lesser of the previous year's TABOR revenues or TABOR limitation multiplied by the allowable growth percentage (inflation plus population growth). If the TABOR revenues exceeded the limitation in any given fiscal year, the Controller booked a liability for the excess revenue, as it had to be refunded to the taxpayers in the following fiscal year.

In Fiscal Years 1994 through 1996 the State did not exceed the TABOR limitation primarily due to the General Assembly restricting increases in tuition and other state fee revenue. However, in Fiscal Year 1997 the State exceeded the TABOR limitation due to substantial increases in income tax revenues. In the ensuing years, the General Assembly reduced the State income tax rate from 5.0 percent to 4.63 percent, and the sales tax rate from 3.0 percent to 2.9 percent. That coupled with a major change in the economy beginning in 2001 resulted in a substantial drop in state revenues. The result is that in Fiscal Year 2003 the State was under the TABOR limitation by \$584.3 million. This will lower the base for computing the Fiscal Year 2004 limitation and all future revenue limitations.

However, due to underestimating the State's population growth in the 1990s by the Census Bureau, the General Assembly has decided to recapture the allowable growth that was never recorded. This is known as the growth dividend and is stated as 6.0 percent additional growth that will be allowable in the current decade. This could be as much as \$500 million in the first year, and cumulative after that.



The chart above shows the potential effects of the growth dividend based on the Office of State Planning and Budgeting's forecasts for the TABOR revenues and allowable growth for the rest of this decade. Fiscal Years 2001, 2002, and 2003 are actual amounts while 2004 through 2009 are forecasts. Because of the growth dividend then it is anticipated that the TABOR spending limit will equal exactly the TABOR revenues for years 2004 through 2005. In FY 2006, the TABOR revenues will exceed the allowable growth for that year plus the remaining growth dividend. At that time the entire 6 percent grow dividend will be exhausted and the State will again be in a TABOR refund situation.

Amendment 23

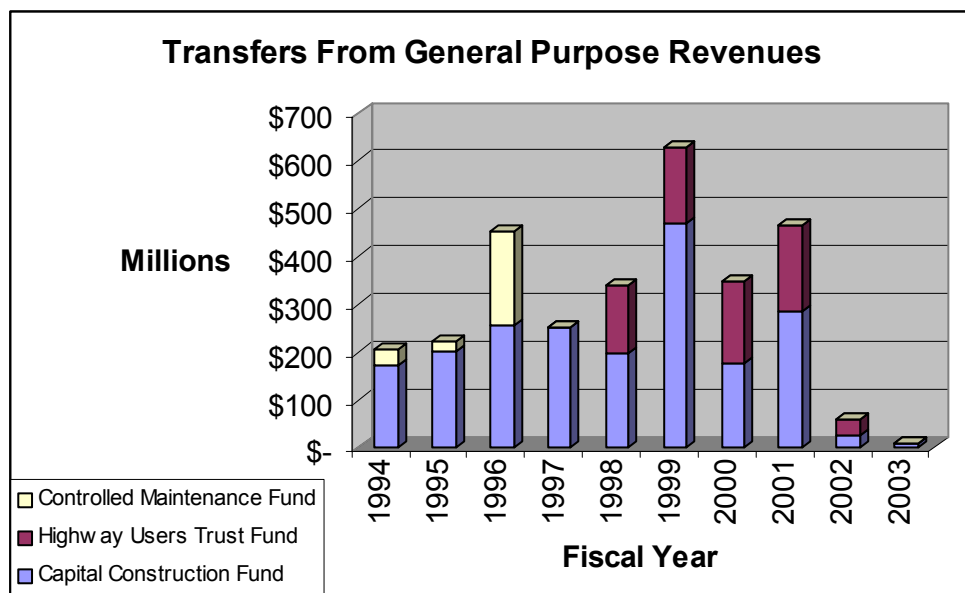
In 2000, the voters of Colorado passed Amendment 23, enacted as Article IX, Section 17 of the Colorado State Constitution. This law requires specific increases in K-12 public education funding every year. The law requires:

- Increased per pupil spending by at least inflation plus one percent for ten years (FY2001-02 through FY 2010-11) and by at least the rate of inflation thereafter;
- Increased total funding for all Categorical Programs (or special student population programs) by at least inflation plus one percent for ten years (FY2001-02 through FY 2010-11) and at the rate of inflation thereafter;
- Creation of a State Education Fund (SEF) to receive the revenues from a tax of one third of one percent (.33) of the state's annual Federal taxable income as modified by law. In other words, a portion of the state's existing income tax revenue is earmarked for education. Expenditures from the SEF are exempt from the Bird-Avveschoug limitations (not subject to the 6% statutory limitation on General Fund appropriations). The money in the SEF can be used to support the inflation plus one percent mandate mentioned above and/or to pay for additional categorical or new education programs; and,
- That the State's General Fund contribution to "Total Program" (total amount spent on students using state and local funds) is increased by a minimum of 5 percent annually for the next ten years unless personal income grows less than 4.5 percent between the two previous years.

Bird-Arveschoug

The Bird-Arveschoug statute, introduced in 1992, limits the growth in General Fund expenditures to 6 percent from the previous year, or 5 percent of personal income. TABOR made this limitation constitutional when it was passed.

While general fund spending growth has been maintained at the 6 percent level, the additional general-purpose revenues that could not be utilized by the General Fund were transferred to the Capital Construction Fund and the Highway Fund. In the 1990's when revenues were increasing rapidly, construction and other non-general fund spending was often increased at high rates. In the current recession when revenues have fallen, maintaining the 6 percent growth in general fund spending means that there is little if any money left over for non-general fund spending. Construction projects have been delayed and new construction spending has ended entirely.



Beginning in FY 2002, transfers-in from cash funds have been used to maintain the spending growth in the General Fund. For the foreseeable future Bird-Arveschoug may have little if any impact on state fiscal policies. This is because the 6 percent limit on the growth in general fund expenditures will not be a binding constraint on the legislature. That limit is above the limit imposed by the TABOR Amendment.